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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Osceola County FIA for the period October 1, 1997 through January 14, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Osceola County FIA had 26 full time equated positions (FTE's) at the time of our review. Osceola County FIA provided assistance to an average 2,282 recipients per month during FY 1997, with total assistance payments of \$3,358,315 during that year.

## **SCOPE**

Our audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Osceola County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
ENP/Heat and SER Payments	Medical Transportation
Telephone Charges	Payroll

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Osceola County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We did, however, find instances of noncompliance with FIA policies and procedures and weaknesses in internal controls, which are detailed below.

## **LOCAL OFFICE RESPONSE**

The management of Osceola County FIA has reviewed all findings and recommendations included in this report. They indicated during the exit conference and in a memorandum dated January 27, 1999 that they are in general agreement with the report, have implemented corrective action for most of the recommendations, and are in the process of implementing corrective action for the remaining recommendations.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Osceola County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Filing Void Checks**

1. Osceola County FIA did not file void checks in numerical sequence with the canceled checks in the month in which they were voided. Instead the local office filed the voided check with the journal voucher to record the voiding of the check.

Accounting Manual Item 405, page 5 requires voided checks to be filed in numerical sequence with the canceled checks. Filing voided checks in numerical sequence with the canceled helps to ensure that all checks are properly accounted for.

WE RECOMMEND Osceola County FIA file void checks in numerical sequence with the canceled checks in the month in which they were voided.

#### Verification of Cash Receipts

2. Osceola County FIA did not follow established procedures for verifying that funds received through the mail were deposited. Staff independent of the cash receipting process verified the funds to be deposited with the Deposit Advice prior to when the deposit was made. However, the entries on the mail logs were not compared with the Official Cashier Receipts until the end of the month.

Accounting Manual Item 433, page 4 requires a verification that all moneys received by the Cashier are included in the deposit by reconciling entries on the mail logs with the receipts on the edit listing, and by verifying that the amount of cash to be deposited is equal to the total amount of cash receipts.

Verification of the funds to be deposited with the mail logs and edit listing prior to when the deposit is made improves internal controls over the cash receipting process.

WE RECOMMEND Osceola County FIA have staff independent of the cash receipting process verify that all funds received by the fiscal clerk are included in the deposits as required by Accounting Manual Item 433, page 4.

#### Preparation of Mail Logs

3. Osceola County FIA did not follow established procedures when recording mail receipts on the mail logs. State warrants, returned local office checks, and food coupons were

recorded on the same mail logs with receipts that were to deposited in the Social Welfare Fund.

Accounting Manual Item 431, page 1 requires the completion of three separate lists of all funds and food coupons received in the mail. One list is for all Department of Treasury warrants sent or returned to the local office for disposition, including locally issued checks returned to the local office. The second list is for undeliverable food coupons returned to the local office and, the third list is for all other funds received for deposit in the Social Welfare Fund, Child Care Fund or Trust and Agency Fund.

WE RECOMMEND Osceola County FIA prepare separate mail lists for warrants and returned local office checks, food coupons, and funds received for deposit in the Social Welfare Fund, as required by Accounting Manual Item 431.

#### Control of Returned Local Office Checks and Food Coupons

4. Osceola County FIA did not provide for the adequate control of returned local office checks or food coupons returned to the local office. The fiscal clerk documented the disposition of returned checks and food coupons. However, the returned checks and food coupons were not recorded on the FIA-61 (Record and Disposition of Checks/Warrants).

Accounting Manual Item 431, page 1, requires locally issued checks returned to the local office and food coupons returned by the post office as undeliverable to be recorded on a FIA-61.

WE RECOMMEND Osceola County FIA record local office checks sent/returned to the local office and food coupons returned to the local office as undeliverable on the FIA-61

(Record and Disposition of Checks/Warrants) as required by Accounting Manual Item 431, page 1.

#### Closing Accounting Records

5. Osceola County FIA did not close the accounting records on the Local Office Automated Accounting System (LOAAS) in a timely manner. At the time of review, the accounting records were last closed September 30, 1998. The fiscal clerk informed us that the books are closed quarterly. At the close of business each month and after preparation of the trial balance and Monthly Financial Report (FIA-206A) and other related reports, the month-end close out on LOAAS should be done as stated in Accounting Manual Item 402, page 2

Leaving LOAAS open increases the risk that entries may be backdated and financial information may be changed and not detected on a timely basis.

WE RECOMMEND Osceola County FIA perform the prior month-end close out of LOAAS after preparation of the trial balance, FIA-206A and other monthly reports.

#### Client Information System Enrollment Profile/Security Agreements

6. Osceola County FIA did not have Client Information System Enrollment Profile/Security Agreements (FIA-3974A) on file for three staff. We also found one staff that had “CRS” status on the Operator Identification Report (PF-011) but the FIA-3974A on file showed “INQ” status.

CIS Security Policy (L Letter L-97-063) states that the CIS Security Coordinator must ensure that each user of CIS has a signed form FIA-3974A on file that reflects his/her current status.

WE RECOMMEND Osceola County FIA obtain signed Client Information System Enrollment Profile/Security Agreements (FIA-3974A) from the staff who do not have them on file and a current FIA-3974A to reflect the current CIS status for other staff.

### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at Osceola County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### **Access to the Fiscal Office**

7. Osceola County FIA did not have a door that would physically restrict access to the fiscal office. Access to the fiscal office should be physically restricted in order to maintain physical security of the assets and information that is stored in the fiscal office.

WE RECOMMEND Osceola County FIA install a door that will physically restrict access to the fiscal office.

#### **Telephone Calling Cards**

8. Osceola County FIA did not have adequate control over the use of telephone calling cards. The local office had only one telephone calling card that was used by all local staff. The use of one calling card does not provide for identifying who used the calling card at any time.

Control over the use and monitoring of telephone calling cards can be improved and the risk of inappropriate telephone charges reduced by issuing a calling card to each staff person authorized to use one.

WE RECOMMEND Osceola County FIA issue each authorized staff person a telephone calling card that can be identified with each user.